Malaysia Smelting Corporation (SMELT MK)

Earnings Lift From Higher Mining Output And Cost Savings Despite Tin Ore Constraints

HOLD (Maintained)	
Share Price	RM1.92
Target Price	RM1.89
Upside	-1.6%

Highlights

- With the newly constructed sand-tailings recovery plant, MSC is poised to increase its mining output from about 11 tonnes/day to 14-16 tonnes/day from Apr 26 onwards.
- The decommissioning of the Butterworth plant is expected to generate recurring monthly cost savings of RM1.5m-2.0m.
- While challenges in securing third-party tin ore persist, near-term earnings will be cushioned by sustained higher tin prices and the continued encashment of its tin intermediate reserves. Maintain HOLD; target price: RM1.89.

Analysis

- **RHT upstream efficiency enhancement initiatives.** Malaysia Smelting Corporation (MSC) is enhancing upstream efficiency at Rahman Hydraulic Tin (RHT) with with the newly completed sand-tailings recovery plant is still on track to commence operations in Apr 26 (2Q26) and is expected to add approximately 3 tonnes/day of tin output after a 3- to 6-month ramp-up, lifting effective mining output from about 11 tonnes/day to 14-15 tonnes/day through improved recovery of previously discarded material. This will reduce the reliance on third-party ore for its smelting operation with internal ore intake increasing from 20% to 25%.
- **Smelter consolidation and cost efficiency improvement.** The centralisation of all smelting operations at the Pulau Indah facility, following the cessation of the Butterworth smelter in 3Q25 and its ongoing decommissioning, is expected to enhance operational efficiency and generate recurring monthly cost savings of RM1.5m-2.0m, mainly from lower labour, fuel oil, consumables, and maintenance expenses. The Isasmelt (Top Submerged Lance) furnace at Pulau Indah also provides flexibility to lift overall capacity by up to 50%, or an additional 20,000 tonnes per year on a need basis, simply by increasing oxygen input, while achieving significantly lower production costs compared with the older Penang facilities due to improved efficiency and a 45% reduction in labour costs following a workforce reduction from 550 to 300 employees. However, based on the current projected annual ore intake, there is presently no immediate need to utilise this additional 20,000 tonne capacity.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	1,691.8	1,759.0	2,073.0	2,125.9	2,454.7
EBITDA	165.1	172.5	349.3	312.7	326.3
Operating profit	151.5	157.7	331.1	293.2	305.2
Net profit (rep./act.)	79.4	82.0	158.8	130.7	140.7
Net profit (adj.)	75.6	80.4	158.8	130.7	140.7
EPS (sen)	9.0	9.6	18.9	15.6	16.7
PE (x)	21.3	20.1	10.2	12.3	11.5
P/B (x)	2.1	2.0	1.8	1.7	1.6
EV/EBITDA (x)	6.2	6.0	3.0	3.2	3.2
Dividend yield (%)	16.1	4.2	4.7	4.2	4.4
Net margin (%)	4.5	4.6	7.7	6.1	5.7
Net debt/(cash) to equity (%)	22.4	21.1	14.7	2.5	(0.8)
Interest cover (x)	7.9	7.6	15.0	14.6	19.4
ROE (%)	10.7	11.0	21.0	17.2	18.4
Consensus net profit			131.3	140.5	
UOBKH/Consensus (x)			0.83	1.07	

Source: MSC, Bloomberg, UOB Kay Hian

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Stock Data

GICS sector	Materials
Bloomberg ticker:	SMELT MK
Shares issued (m):	840.0
Market cap ({{Curr}}$m):	1,612.8
Market cap (US$m):	405.8
3-mth avg daily t'over (US$m):	1.1

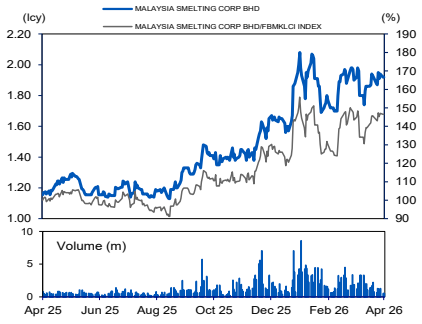
Price Performance (%)

52-week high/low				RM2.18/RM1.12
1mth	3mth	6mth	1yr	YTD
1.1	2.1	36.2	74.5	20.0

Major Shareholders

	%
The Straits Trading Company Ltd (STC)	26.8
Straits Trading Amalgamate	16.6
Sword Investments Private Limited	5.1

Price Chart



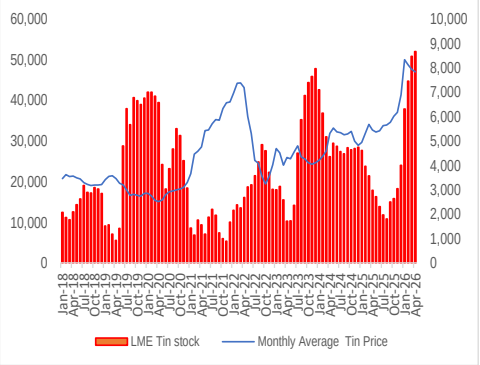
Source: Bloomberg

Company Description

Malaysia Smelting Corporation is a leading integrated producer of tin metal and tin-based products and a global leader in custom tin smelting. The company is also involved in tin mining.

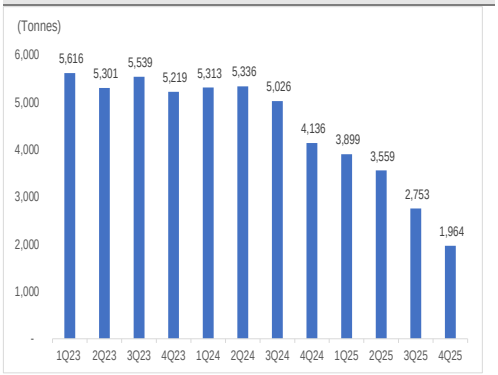
- **Construction of on-site rotary furnace to enhance ESG and operational efficiency.** While this initiative is primarily driven by the group's ESG objectives, as it reduces the amount of waste and slag leaving the RHT mine site, it is also expected to lower logistics costs and enhance operational efficiency. With a planned investment of RM10m and targeted completion by 3Q26, the on-site rotary furnace will have a processing capacity of around 10 tonnes/day, enabling the conversion of tin ore into crude tin metal at source before final refining at Pulau Indah. This will optimise material handling, remove impurities at the source for more consistent feedstock to downstream smelting operations, and improve turnaround time through faster conversion of mined ore into tin.
- **Tin supply constraints support firmer price outlook.** Global tin supply remains under pressure due to regulatory and operational challenges in key producing regions. Indonesia's crackdown on around 1,000 illegal mines, along with stricter licensing and environmental enforcement, has tightened tin ore availability. At the same time, the Bisie mine in the Democratic Republic of the Congo, which accounts for about 8% of global tin ore supply, continues to face security and logistical risks that may constrain output. Myanmar's tin production remains constrained despite the resumption of mining activities after the earlier suspension in Aug 23, even though the country holds reserves estimated at roughly 15% of the global total. Together, these issues will continue to support tight supply conditions and a firm outlook for tin prices.
- **China competition intensifies difficulty in securing tin ore.** The smelting division of MSC continues to face challenges in securing third-party tin ore, as China's tin smelting capacity exceeds its domestic mine supply, intensifying global competition for securing tin ore. However, near-term earnings for MSC's smelting division are expected to be cushioned by the encashment of tin intermediates (with tin intermediate stands at 1,964mt) and increased intake of internally sourced tin ore following the expansion of mining output. Management indicated that, based on the current cost structure, the breakeven operating level for the smelting division is around 55% utilisation.

LME Tin Prices and Inventory



Source: Bloomberg, UOB Kay Hian

MSC's Tin Intermediate Reserve



Source: MSC, UOB Kay Hian

Valuation/Recommendation

- **Maintain HOLD with an unchanged target price of RM1.89,** based on 10x 2026F PE, which is at its mean. We believe earnings are likely to peak in 2026, driven by the monetisation of higher-margin tin intermediate reserves before normalising as reserve levels taper off. Nevertheless, despite ongoing near-term challenges in securing tin ore, earnings should remain supported by the mining division, underpinned by sustained higher tin prices and the continued capitalisation of its tin intermediate reserves.

Earnings Revision/Risk

- **None**. Note that our current LME tin price assumptions for 2026/27 are US$45,000/tonne, and US$46,000/tonne respectively.

Environmental, Social, Governance (ESG) Updates

Environmental

- MSC is upgrading the mini hydro plant at RHT mine from 0.75MW to 5.00MW.

Social

- In 2020, 76% of its total workforce are local Malaysians.

Governance

- Majority of MSC's board members are independent (four out of six board members).

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	1,759	2,073	2,126	2,455
EBITDA	173	349	313	326
Deprec. & amort.	(15)	(18)	(20)	(21)
EBIT	158	331	293	305
Total other non-operating income	-	-	-	-
Associate contributions	1	2	3	3
Net interest income/(expense)	(21)	(22)	(20)	(16)
Pre-tax profit	138	311	276	292
Tax	(42)	(94)	(84)	(89)
Minorities	14	58	62	63
Net profit	82	159	131	141
Net profit (adj.)	80	159	131	141

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	193	253	274	299
Other LT assets	309	286	280	273
Cash/ST investment	226	226	288	284
Other current assets	782	905	925	1,054
Total assets	1,511	1,669	1,768	1,910
ST debt	366	337	309	282
Other current liabilities	246	308	316	361
LT debt	14	0	0	0
Other LT liabilities	82	140	197	254
Shareholders' equity	731	756	757	760
Minority interest	71	129	190	253
Total liabilities & equity	1,511	1,669	1,769	1,910

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	83	153	196	136
Pre-tax profit	138	310	272	285
Tax	(30)	(94)	(83)	(86)
Deprec. & amort.	15	16	18	19
Working capital changes	44	(81)	(14)	(85)
Other operating cashflows	(85)	2	3	4
Investing	(17)	(35)	(40)	(45)
Capex (growth)	(24)	(34)	(39)	(44)
Capex (maintenance)	(1)	(1)	(1)	(1)
Investments	-	-	-	-
Others	8	-	-	-
Financing	(51)	(118)	(94)	(96)
Dividend payments	(63)	(75)	(66)	(69)
Proceeds from borrowings	26	(29)	(28)	(27)
Loan repayment	(14)	(14)	-	-
Others/interest paid	4	5	6	7
Net cash inflow (outflow)	14	(0)	63	(4)
Beginning cash & cash equivalent	212	226	226	288
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	226	226	288	284

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	9.8	16.8	14.7	13.3
Pre-tax margin	7.9	15.0	12.8	11.6
Net margin	4.6	7.6	6.0	5.5
ROA	5.3	9.5	7.2	7.1
ROE	11.0	20.9	16.9	17.8
Growth				
Turnover	4.0	17.9	2.6	15.5
EBITDA	4.5	102.5	(10.5)	4.3
Pre-tax profit	4.8	124.2	(12.2)	4.6
Net profit	6.5	96.5	(19.0)	5.7
Net profit (adj.)	6.5	96.5	(19.0)	5.7
Leverage				
Debt to total capital	(25.2)	(20.2)	(17.5)	(14.8)
Debt to equity	(52.0)	(44.6)	(40.8)	(37.1)
Net debt/(cash) to equity	21.1	14.7	2.7	(0.3)
Interest cover (x)	7.6	14.4	12.2	13.1

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